



Citizens Finance Review Commission

Commissioners

Tony Astorga
(Co-Chair)

William J. Post
(Co-Chair)

Frank Alvarez

Fritz Aspey

David Bartlett

Johnny Basha

Drew Brown

James Bush

Ray Clarke

Peter Fine

Tom Franz

Kristine Garrett

Yolanda Kizer

Ivan Makil

Anne Mariucci

Monsignor Edward Ryle

Rano Singh Sidhu

David Smith

Randie Stein

Mary Upchurch

Joel Valdez

Executive Director

Leezie Kim

Federal Funds Received in Arizona

Prepared for the Citizens Finance Review Commission

by

Tom Rex
Center for Business Research
L. William Seidman Research Institute
W. P. Carey School of Business
Arizona State University
Box 874011
Tempe, Arizona 85287-4011

This paper is the result of the author and a review by many people. This paper is not, however, representative of the views of all or even a consensus of the author and the critical reviewers. To attribute the author with the various positions taken in this paper without other confirmation would be misleading. Rather, the author attempted to disclose as fully and succinctly as possible the various different opinions and literature on any given topic to aid the CFRC in its deliberations.

September 23, 2003

Critical Reviewers:

Tom Rex
Center for Business Research
L. William Seidman Research
Institute
W.P. Carey School of Business
Arizona State University

Lisa Danka
Director of the Commerce and
Economic Development
Commission,
Arizona Department of Commerce

Kent Ennis
Economic Consultant
CH2M Hill

Elaine Smith
Senior Economist
Arizona Department of Revenue

© 2003 by the Citizens Finance Review Commission. This document may be reproduced without restriction provided it is reproduced accurately, is not used in a misleading context, and the author(s), the Citizens Finance Review Commission and the Arizona Department of Commerce are given appropriate recognition.

This report was prepared for the Citizens Finance Review Commission with funding and/or assistance from the Arizona Department of Commerce and the Commerce and Economic Development Commission, and may be presented independently elsewhere at the authors' discretion. This report will be available on the Internet for an indefinite length of time at www.azcfrc.az.gov. Inquiries about this report or the Citizens Finance Review Commission should be directed to the Office of the Governor of Arizona, (602) 542-7601.

The authors and sponsors have made every reasonable effort to assure the accuracy of the information contained herein, including peer and/or technical review. However, the contents and sources upon which it is based are subject to changes, omissions and errors and the authors and sponsors accept no responsibility or liability for inaccuracies that may be present. THIS DOCUMENT IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY. THE AUTHORS AND SPONSORS PRESENT THE MATERIAL IN THIS REPORT WITHOUT MAKING ANY WARRANTY, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, OR ASSUMING ANY LEGAL LIABILITY OR RESPONSIBILITY FOR THE ACCURACY, COMPLETENESS, OR USEFULNESS OF ANY INFORMATION, APPARATUS, PRODUCT, OR PROCESS DISCLOSED, OR REPRESENTING THAT ITS USE WOULD NOT INFRINGE PRIVATELY OWNED RIGHTS. THE USER ASSUMES THE ENTIRE RISK AS TO THE ACCURACY AND THE USE OF THIS DOCUMENT AND ANY RELATED OR LINKED DOCUMENT.

TABLE OF CONTENTS

Summary	1
Introduction	4
Grants	5
Detail from <i>Federal Aid to States</i>	7
Other Categories	17
Retirement and Disability	17
Other Direct Payments	17
Procurement Contracts	18
Salaries and Wages	19
Total	19

LIST OF TABLES

1. Federal Grants Obligated to Arizona in Fiscal Year 2002	7
2. Federal Grants Distributed to State and Local Governments: Arizona, Fiscal Year 2002	8
3. Largest Shortfalls in Federal Aid: Arizona, Fiscal Year 2002	16
4. Summary of Federal Spending Nationally and in Arizona	21

LIST OF CHARTS

1. Federal Grants Distributed to State and Local Governments by Federal Agency: Arizona, Fiscal Year 2002	1
2. Federal Per Capita Spending in Arizona	2
3. Federal Per Capita Spending in Arizona Relative to the National Average	3
4. Federal Per Capita Grants to Arizona Relative to the National Average	6
5. Health and Human Services Grants to Arizona, Fiscal Year 2002	8
6. Transportation Grants to Arizona, Fiscal Year 2002	13
7. Housing and Urban Development Grants to Arizona, Fiscal Year 2002	13
8. Education Grants to Arizona, Fiscal Year 2002	15

SUMMARY

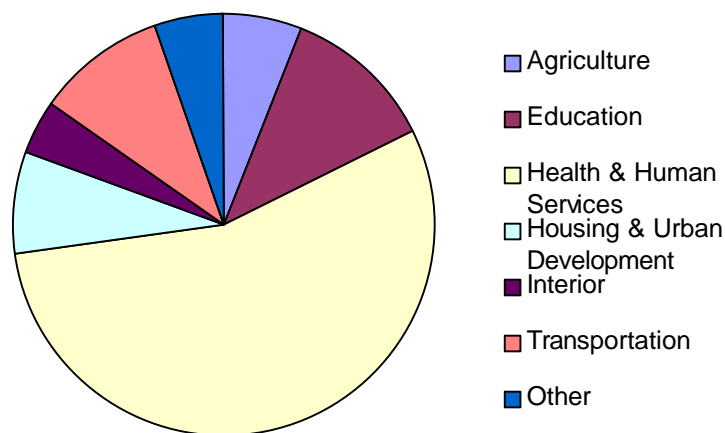
Federal aid to state and local governments in Arizona totaled \$6.31 billion in fiscal year 2002. This amounted to \$1,157 per Arizona resident, 8 percent less than the national per capita average. Had federal per capita grant expenditures to state and local governments in Arizona matched the national average, Arizona would have received \$543 million more than the actual figure. Arizona's per capita figure was 33rd greatest among the 50 states and ranked fifth among 11 comparison states.

Given the potential for substantially more federal funds to flow to state and local governments in Arizona, an in-depth study of funding by specific federal program is recommended to be undertaken by the legislative or executive branches of state government. Such a study could identify opportunities for additional federal funding, the steps required to receive this funding, and the parties responsible for taking action (e.g. the Legislature, local governments, or the state's congressional delegation).

More than half of the grants received by Arizona governments in fiscal year 2002 came from the U.S. Department of Health and Human Services (see Chart 1), with three-fourths of the grants from that agency for Medicaid (AHCCCS in Arizona: the Arizona Health Care Cost Containment System). Per capita Medicaid receipts in Arizona were 9 percent less than the national average. Had the state's per capita figure equaled the national average, Arizona would have received an additional \$254 million for AHCCCS.

CHART 1

**FEDERAL GRANTS DISTRIBUTED TO STATE
AND LOCAL GOVERNMENTS BY FEDERAL
AGENCY: ARIZONA, FISCAL YEAR 2002**



Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002*.

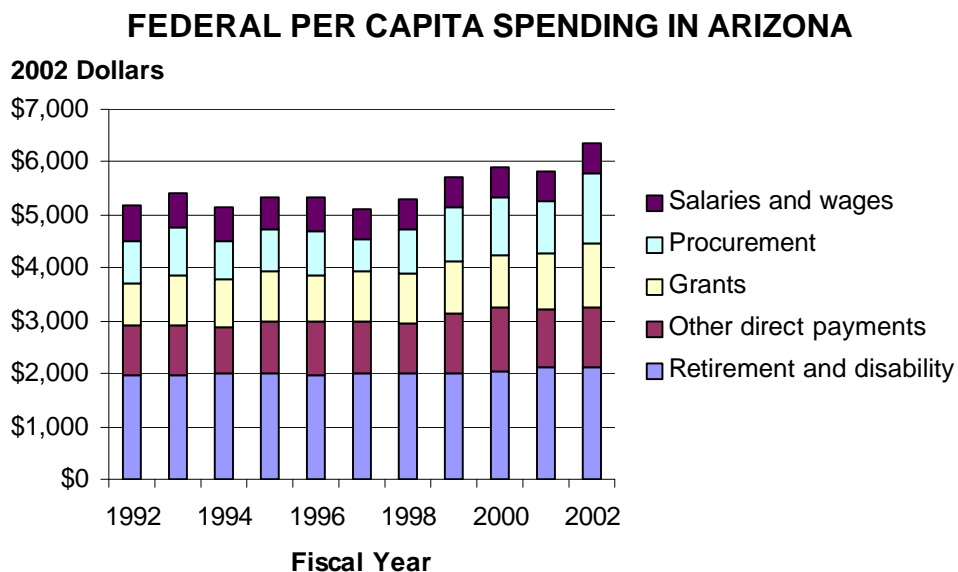
Per person federal aid to state and local governments in Arizona also was below average from a number of other programs. Shortfalls exceeded \$50 million from the public housing certificate program, Highway Trust Fund, public housing capital program, and TANF (Temporary Assistance to Needy Families).

The federal government classifies federal funds into five major categories, as shown in Chart 2. The category of grants is of particular interest in terms of public policy since it includes nearly all of the federal funds received by state or local governments. Grants also are made to other organizations, such as public universities. Overall, federal grants jumped between fiscal years 1992 and 2002, with the per capita increase in Arizona slightly less than the national average.

Of the five major categories, Arizona received a subpar per capita amount in fiscal year 2002 in four (grants, retirement and disability, other direct payments, and federal salaries and wages). The exception was procurement contracts with private-sector enterprises, which were 52 percent higher than the national per person average. Procurement contracts to Arizona companies increased much more over the last decade than the national average (see Chart 3).

Total federal funds distributed to Arizona in fiscal year 2002 were 2 percent less than the national per person average. Over the 10 prior years, the shortfall fluctuated from less than 1 percent to more than 8 percent.

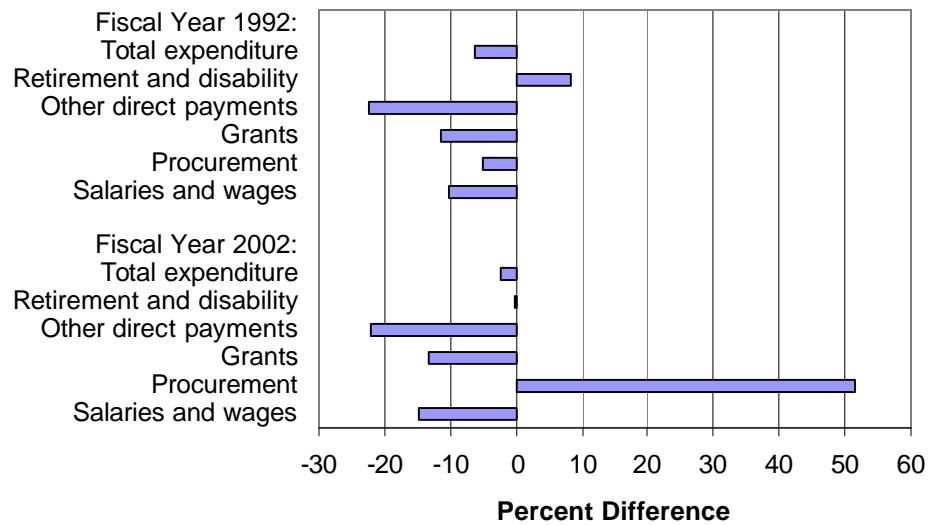
CHART 2



Source: U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report* (various fiscal years).

CHART 3

FEDERAL PER CAPITA SPENDING IN ARIZONA RELATIVE TO THE NATIONAL AVERAGE



Source: U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report* (various fiscal years).

INTRODUCTION

Annually, the U.S. Bureau of the Census produces the *Consolidated Federal Funds Report* (CFFR), reporting data for the prior fiscal year. The latest data are for fiscal year 2002 (all subsequent references to year in this paper are for the fiscal year).

The CFFR covers federal government expenditures or obligations in the following categories, which are listed in order of size:

- Retirement and disability (expenditures)
- Other direct payments (expenditures)
- Grants (obligations)
- Procurement contracts (obligations)
- Salaries and wages (expenditures)

The Census Bureau combines hundreds of programs into an intermediate level of aggregation and into the five major categories. The aggregation of programs was altered in 1998, such that consistent time series for the intermediate categories are available only back to 1998. The Census Bureau retabulated the five major categories so that consistent time series are available; data for 1992 through 2002 are examined in this paper.

The Census Bureau collects the expenditure and obligation data at the most detailed level of geography possible (e.g. school district, special district or municipality), aggregating to county and state totals. For grant programs that make a direct payment to state governments, the funding is allocated to local governments when possible, but a substantial amount of funding is classified as “state undistributed.” The focus of this paper is data for Arizona, compared to the national total, all states and a subset of 11 comparison states: Arizona, California, Colorado, Florida, Georgia, Nevada, New Mexico, Oregon, Texas, Utah and Washington. Adjusting for resident population allows Arizona’s figures to be compared to those of other states and the nation.

The level of federal funding by state depends on a number of factors, which vary from program to program. No attempt is made in this paper to identify the reasons why federal funds received in Arizona may vary from the national average. The national amount of federal funding is somewhat erratic from year-to-year; funds received in Arizona fluctuate considerably beyond the national variation. Because of the erratic nature of the funding, caution is urged in evaluating the change between any two years.

The Census Bureau annually releases a companion document to the CFFR — *Federal Aid to States* — that reports grant expenditures made to state and local governments. Its data on grants differ from those of the CFFR, since the latter reports obligations and includes grants made to nongovernmental entities. While it is possible to obtain consistent federal aid data by program prior to 1998, these data are not readily available.

GRANTS

Since the grants category includes nearly all of the federal funds received by state or local governments, it is of particular significance in terms of public policy. The other major categories largely consist of payments made directly to individuals, wages and salaries received by federal government employees, and procurement contracts received by private-sector enterprises.

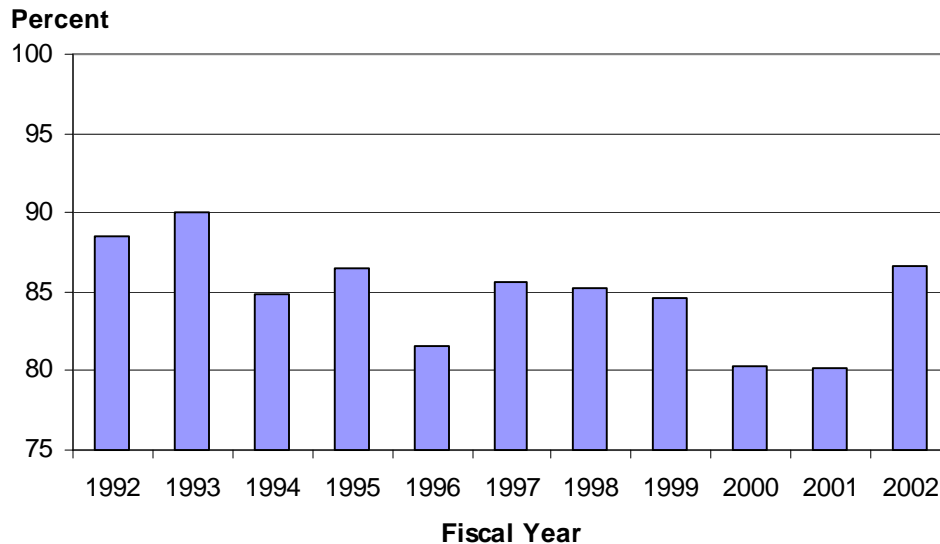
Grant obligations to Arizona governments and other entities in 2002 totaled \$6.66 billion; the national total was \$406.58 billion. Arizona received 1.64 percent of the national grants but its population made up 1.89 percent of the national total. Thus, grants per capita in Arizona were below the national average (by 13 percent). The per capita amount ranked 41st in the nation and sixth among the 11 comparison states. If Arizona's per capita figure had been equal to the national average, the state would have received \$1 billion more than its actual total.

Block grants, formula grants, project grants, and cooperative agreements are included in this category. Most of the grants are made to state or local governments. Grants were responsible for 19 percent of all federal funds sent to Arizona in 2002. Nationally, the share was nearly 22 percent. Spending on grants soared between 1992 and 2002, rising an inflation-adjusted 73 percent nationally, more than twice as fast as spending in any other category. Per person spending jumped 51 percent in Arizona, but the national advance was 54 percent.

Arizona consistently has compared unfavorably in this category (see Chart 4), though the annual funding is somewhat erratic. As a ratio to the national per capita average, Arizona ranged from 10 to 20 percent low between 1992 and 2002; the 2002 per capita figure (\$1,221) was 13 percent below average. Except in 1993, the national rank was between

CHART 4

FEDERAL PER CAPITA GRANTS TO ARIZONA RELATIVE TO THE NATIONAL AVERAGE



Source: U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report* (various fiscal years).

38th and 46th (41st in 2002) and the rank among the comparison states was between fifth and eighth (sixth in 2002).

Three-fifths of all grants provided by the federal government in 2002 originated in the Department of Health and Human Services, which also was the source of 60 percent of Arizona's total. Arizona's share of the national total obligated by this department was only 1.65 percent, putting the per capita ratio to the national average at 87 percent. Arizona ranked 37th nationally on a per capita basis and in the middle of the comparison states. Had Arizona's per capita amount matched the national average, the state would have been obligated close to \$600 million more than the actual figure of \$4.0 billion.

Four other federal departments provided more than \$20 billion in grants nationwide (see Table 1). Among these, Arizona's per capita amount was greater than the national average only from the Department of Education: Arizona had among the highest amounts nationally and within the comparison group. Grants from the Department of Agriculture were within 10 percent of the national per capita average, but Arizona ranked near the bottom of the states in grants from the Departments of Transportation and Housing and Urban Development.

Arizona's performance was mixed among the other federal departments providing at least \$1 billion in grants nationally. Arizona received above average amounts from the Department of Interior and the National Aeronautical and Space Administration (NASA).

TABLE 1
FEDERAL GRANTS OBLIGATED TO ARIZONA IN FISCAL YEAR 2002

Federal departments providing at least \$1 billion nationally	Total in Billions		Arizona Share Of U.S.	Ratio to U.S.	Per Capita	
	U.S.	Arizona			Rank	
					Nation	11 States
TOTAL	\$406.577	\$6.664	1.64%	87%	41	6
Health&Human Services	242.796	4.006	1.65	87	37	6
Transportation	42.460	0.653	1.54	81	47	8
Education	33.548	0.745	2.22	117	13	2
Housing&Urban Develop	27.863	0.261	0.94	50	50	11
Agriculture	22.065	0.378	1.71	91	33	7
Labor	9.047	0.151	1.67	88	33	5
Justice	5.056	0.106	2.10	111	25	4
Natl Science Foundation	4.413	0.084	1.91	101	22	5
Environmental Protection	4.198	0.051	1.21	64	47	8
Federal Emergency Mgt	2.603	0.025	0.96	51	29	8
Dept of Defense	2.410	0.040	1.66	88	30	4
Interior	1.893	0.086	4.54	241	13	6
Energy	1.865	0.018	0.99	52	44	9
Commerce	1.570	0.008	0.51	27	49	11
NASA	1.095	0.023	2.11	111	19	4
Treasury	1.007	0.001	0.14	7	11	4

Source: U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report for Fiscal Year 2002*.

The state ranked near the bottom on grants from the Environmental Protection Agency and Departments of Energy and Commerce.

Detail from *Federal Aid to States*

Federal Aid to States provides more detail on grants made specifically to state and local governments. Since this source reports expenditures rather than obligations, and only to governments, its Arizona total of \$6.31 billion in 2002 was different from the CFFR grants total of \$6.66 billion. Arizona was not as far below the national per capita average based on grant expenditures to state and local governments (8 percent) as it was on all grants obligated (13 percent). Had per capita grant expenditures to state and local governments in Arizona (\$1,157 in 2002) equaled the national average, state and local governments in Arizona would have received \$543 million more than the actual figure. Arizona's per capita figure was 33rd greatest among the 50 states and ranked fifth among 11 comparison states.

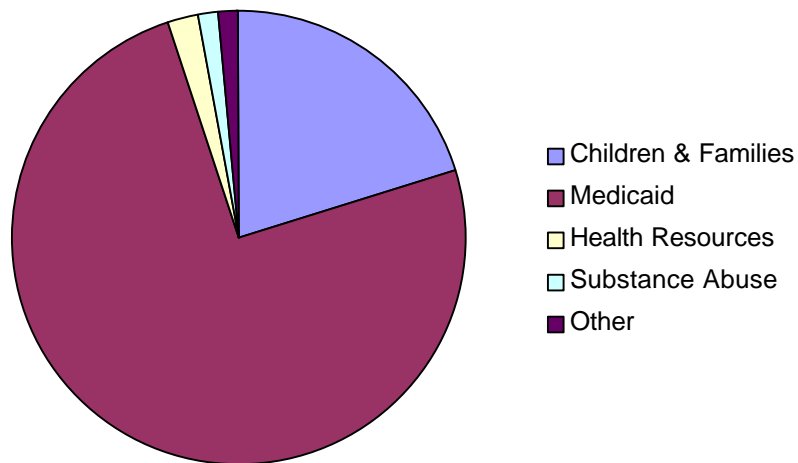
Department of Health and Human Services

The Department of Health and Human Services (HHS) accounted for about 55 percent of the federal aid to all states and to Arizona in 2002. This large share mostly resulted from

the Medicaid program (see Chart 5), which was by far the largest grantor of any program in any department. It accounted for about three-fourths of the HHS grants. Arizona received \$2.6 billion for Medicaid (Arizona's program is called AHCCCS: Arizona Health Care Cost Containment System). On a per capita basis, the state's figure was 9 percent less than the national average in 2002, despite a real per capita percentage increase twice the national average between 1998 and 2002 (see Table 2). Had the state's

CHART 5

HEALTH AND HUMAN SERVICES GRANTS TO ARIZONA, FISCAL YEAR 2002



Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002*.

TABLE 2
FEDERAL GRANTS DISTRIBUTED TO STATE AND LOCAL GOVERNMENTS
ARIZONA, FISCAL YEAR 2002

	Dollars in Thousands		AZ Share of US	AZ Ratio to US*	Added Funds*	FY98-02 % Chg**	
	U.S.	Arizona				US	AZ
TOTAL GRANTS	\$362,388,527	\$6,313,945	1.74%	92%	\$543,096	28%	38%
DEPT OF AGRICULTURE	21,486,507	392,496	1.83	97	14,067	1	2
Agricultural Marketing Service	591,402	17,811	3.01	159		11	-14
Cooperative Extension Service	951,355	12,089	1.27	67	5,912	-3	-8
Extension Activities	444,175	4,580	1.03	55	3,825	0	-6
Research and Education	507,180	7,509	1.48	78	2,088	-5	-10
Food and Nutrition Service	18,718,527	341,987	1.83	97	12,201	4	4
Child Nutrition	10,161,349	203,489	2.00	106		9	2
Food Stamps	3,859,055	34,539	0.90	47	38,481	-3	12
Special Supplemental Food (WIC)	4,376,120	98,016	2.24	118		0	6
Other Food & Nutrition	322,003	5,943	1.85	98	150	7	-7

Forest Service	551,876	9,413	1.71	90	1,029	31	135
Payments to States & Counties	370,121	7,002	1.89	100	1	10	164
Other Forest Service	181,755	2,411	1.33	70	1,028	119	79
Rural Development Activities	546,977	8,487	1.55	82	1,863	-51	-50
Water & Waste Disposal Systems	456,628	6,229	1.36	72	2,411	12	53
Other Rural Development	90,349	2,258	2.50	132		-87	-83
DEPT OF COMMERCE	972,723	4,739	0.49	26	13,667	16	-3
Economic Development	387,453	2,793	0.72	38	4,538	-8	12
National Oceanic & Atmospheric Admin	545,194	1,518	0.28	15	8,798	45	22
Other Commerce	40,076	428	1.07	56	330	0	-62
CORP PUBLIC BROADCASTING	356,694	3,828	1.07	57	2,921	20	11
DEPT OF DEFENSE	224,076	189	0.08	5	4,051	17	-96
DEPT OF EDUCATION	32,738,775	730,065	2.23	118		36	17
English Language Acquisition	587,907	17,712	3.01	159		-10	-23
Educational Research & Improvement	463,462	5,756	1.24	66	3,014	218	108
Special Ed & Rehabilitation Services	11,183,208	178,700	1.60	84	32,906	34	-15
Rehabilitation and Disability	2,651,559	49,028	1.85	98	1,144	-31	-35
Special Education Programs	8,531,649	129,672	1.52	80	31,762	89	-4
Vocational and Adult Education	1,895,884	31,930	1.68	89	3,944	17	431
Vocational and Technical Education	1,301,850	24,465	1.88	99	168		
Adult Education & Literacy	594,034	7,465	1.26	66	3,775		
Elementary & Secondary Education	17,081,306	469,086	2.75	145		43	29
Programs for the Disadvantaged	1,355,777	34,917	2.58	136		-86	-80
Migrants	423,002	7,616	1.80	95	388		
Others	932,775	27,301	2.93	155			
Impact Aid	1,132,377	145,893	12.88	681			
Programs for American Indians	124,420	10,663	8.57	453			
No Child Left Behind	4,669,442	88,071	1.89	100	283		
Title 1	8,607,065	147,620	1.72	91	15,241		
Other K-12 Education	1,192,225	41,922	3.52	186			
Postsecondary Education	1,460,009	25,739	1.76	93	1,887	2	31
Other Education	66,999	1,142	1.70	90	126		
DEPT OF ENERGY	237,465	1,396	0.59	31	3,097	43	-8
ENVIRONMENTAL PROTECTION	3,777,857	46,339	1.23	65	25,145	12	-19

(continued)

TABLE 2 (continued)
FEDERAL GRANTS DISTRIBUTED TO STATE AND LOCAL GOVERNMENTS
ARIZONA, FISCAL YEAR 2002

	Dollars in Thousands		AZ Share of US	AZ Ratio to US*	Added Funds*	FY98-02 % Chg**	
	U.S.	Arizona				US	AZ
EMERGENCY MANAGEMENT (FEMA)	\$3,406,354	\$13,788	0.40%	21%	\$50,666	78%	-40%
Disaster Relief	3,078,456	11,026	0.36	19	47,224	96	-46
Other FEMA	327,898	2,762	0.84	45	3,442	-4	5
HEALTH & HUMAN SERVICES	204,196,662	3,475,601	1.70	90	388,166	32	57
Children and Families	43,358,168	703,431	1.62	86	116,983	19	21
Child Care and Development	4,477,310	101,972	2.28	120		347	290
Child Support Enforcement	2,891,176	27,962	0.97	51	26,744		
Headstart	7,748,828	165,642	2.14	113		43	49
Safe and Stable Families	298,572	8,326	2.79	147			
Foster Care & Adoption Assistance	5,881,191	61,964	1.05	56	49,319	23	-17
Low Income Energy Assistance	1,740,318	8,863	0.51	27	24,067	36	25
Social Services Block Grant	1,689,964	30,820	1.82	96	1,157	-38	-34
Temp Assistance Needy Families	18,537,930	297,450	1.60	85	53,321	-11	-3
Other Children and Families	92,879	432	0.47	25	1,325		
Aging	1,084,579	20,149	1.86	98	373	19	50
Disease Control and Prevention	649,607	6,853	1.05	56	5,439	105	36
Medicaid	150,640,423	2,596,684	1.72	91	253,703	33	66
Health Resources and Services	5,692,865	77,006	1.35	72	30,713	189	238
Substance Abuse & Mental Health	2,666,378	53,014	1.99	105		45	85
Other Health and Human Services	104,642	18,464	17.64	933			
HOUSING & URBAN DEVELOPMENT	36,964,915	489,164	1.32	70	210,278	21	34
Community Development Block Grant	5,437,387	75,268	1.38	73	27,617	5	16
Emergency Shelter & Homeless	1,044,295	20,578	1.97	104		35	3
Housing for Persons with AIDS	314,296	1,658	0.53	28	4,289	41	105
Housing - Native American Block Grant	713,127	152,039	21.32	1127		40	80
Housing for Special Populations	895,330	8,869	0.99	52	8,072	-3	3
Low Rent Housing Assistance	3,708,521	29,613	0.80	42	40,559	3	-26
Neighborhood Revitalization	466,956	5,875	1.26	67	2,961	76	2716
Public Housing Drug Elimination	325,187	3,959	1.22	64	2,194	3	4
Housing Certificate Program	18,498,524	156,893	0.85	45	193,132	142	156
Public Housing Capital Program	3,767,202	12,105	0.32	17	59,177	-13	-51
Home Ownership Assistance	1,544,763	19,614	1.27	67	9,616	0	81
Other HUD	249,327	2,693	1.08	57	2,025	-95	-94
DEPT OF INTERIOR	3,366,566	261,678	7.77	411		18	43
Bureau of Indian Affairs	919,623	216,527	23.55	1244		1	37
Bureau of Land Management	336,285	16,968	5.05	267		57	38
Bureau of Reclamation	210,656	16,012	7.60	402		297	3760
Fish and Wildlife Service	483,016	10,816	2.24	118		2	-10
Sport Fish Restoration	287,912	5,266	1.83	97	182	14	-16
Other Fish & Wildlife	195,104	5,550	2.84	150		-12	-4
Minerals Management Service	717,963	97	0.01	1	13,488	-2	-47
Minerals Leasing Act	683,550	96	0.01	1	12,838	12	-47
Other Minerals Management	34,413	1	0.00	0	650	-72	
National Park Service	83,276	1,258	1.51	80	318	53	65
Other Interior	615,747	0	0.00	0	11,651	51	

(continued)

TABLE 2 (continued)
FEDERAL GRANTS DISTRIBUTED TO STATE AND LOCAL GOVERNMENTS
ARIZONA, FISCAL YEAR 2002

	Dollars in Thousands		AZ Share of US	AZ Ratio to US*	Added Funds*	FY98-02 % Chg**	
	U.S.	Arizona				US	AZ
DEPT OF JUSTICE	\$4,625,886	\$102,441	2.21%	117%		30%	16%
Justice Programs	4,422,162	100,116	2.26	120		31	17
Law Enforcement Assistance	2,514,451	66,648	2.65	140		27	17
Juvenile Justice Programs	553,934	7,462	1.35	71	\$3,019	390	289
Crime Victims Programs	477,850	6,450	1.35	71	2,592		
Substance Abuse Programs	803,784	19,411	2.41	128			
Other Justice Programs	678,883	33,325	4.91	259			
Other Justice	203,724	2,325	1.14	60	1,530		
DEPT OF LABOR	8,375,721	139,356	1.66	88	19,128	9	8
Employment and Training	8,004,797	133,778	1.67	88	17,687	6	5
State UI & Employment Service	3,606,533	48,041	1.33	70	20,201	0	-5
Workforce Investment	3,430,672	59,988	1.75	92	4,926	-10	-22
Other Employment and Training	967,592	25,749	2.66	141		654	9999
Other Labor	370,924	5,578	1.50	80	1,441	190	200
DEPT OF TRANSPORTATION	38,719,450	638,656	1.65	87	93,985	28	33
Federal Aviation Administration	2,860,166	53,424	1.87	99	695	69	-14
Federal Highway Administration	30,170,846	518,898	1.72	91	51,989	32	47
Demonstration Projects	265,674	19,868	7.48	395		-41	259
Highway Trust Fund	29,443,965	480,670	1.63	86	76,463	37	49
Other Highway	461,207	18,360	3.98	210		-52	-31
Federal Transit Administration	5,223,168	60,630	1.16	61	38,202	-2	1
Other Transportation	465,270	5,704	1.23	65	3,100	53	4
DEPT OF TREASURY	465,015	1,187	0.26	14	7,612	141	-61
DEPT OF VETERANS AFFAIRS	486,208	3,537	0.73	38	5,663	24	73
OTHER DEPARTMENTS	1,987,653	9,485	0.48	25	28,125	5	67

Note: The table includes categories with national funding of at least \$250 million and selected others. The data represent actual outlays to state and local governments and differ from the grants category in the CFFR, which measures obligations and includes grants to nongovernmental recipients.

* The ratio is based on per capita dollars. The "Added Funds" column presents the additional funds that would be realized in Arizona if a program with a per capita ratio to the U.S. average less than 100 were equal to 100; dollars are in thousands.

** Real per capita percent change between fiscal years 1998 and 2002. A blank indicates that a comparison could not be made between 1998 and 2002.

Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002* and *Federal Aid to States for Fiscal Year 1998*. GDP implicit price deflator from U.S. Department of Commerce, Bureau of Economic Analysis.

per capita figure in 2002 matched the national average, Arizona would have received \$254 million more for AHCCCS.

The Administration for Children and Families provided most of the rest of the HHS grants. With per capita funding 14 percent below the norm, Arizona's shortfall amounted to more than \$100 million in 2002. The per capita increase between 1998 and 2002 was about the same as the national average. Temporary Assistance to Needy Families (TANF) was the largest of several programs for children and families that expended more than \$1 billion nationally. At 15 percent less than the per capita average, Arizona received some \$50 million less than average in TANF funding. Real per capita TANF funding fell from 1998 to 2002, though not as much in Arizona as nationally.

Among other programs for children and families, Arizona's per capita receipts were considerably below average for child support enforcement, foster care and adoption assistance (amounting to almost a \$50 million shortfall), and low income energy assistance. Arizona lost ground in the latter two categories between 1998 and 2002. In contrast, Arizona's per capita amount was above average for child care and development, Children and Family Services (Headstart), and Safe and Stable Families.

Among other HHS programs, Arizona received a considerably below average amount from the Health Resources and Services Administration but a bit more than average from the Substance Abuse and Mental Health Services Administration. Funding of each increased more in Arizona from 1998 to 2002 than the national average.

Department of Transportation

About 10 percent of the federal aid, nationally and to Arizona, came from the Department of Transportation in 2002. Arizona's per capita figure was 13 percent less than the national average, amounting to close to a \$100 million shortfall. The increase in Arizona from 1998 to 2002 was slightly more than the U.S. average. Most of the grants came from the Federal Highway Administration (see Chart 6), particularly the Highway Trust Fund. Though the 1998-to-2002 increase was above average, Arizona's trust fund monies were 14 percent below the per capita average in 2002; the state received \$76 million less than it would have had the per capita figure matched the U.S. average. The per capita grant figure from the Federal Aviation Administration was close to average in 2002, though Arizona had been much above average in 1998. Arizona's per capita figure was far below average on Federal Transit Administration monies, amounting to a \$38 million shortfall.

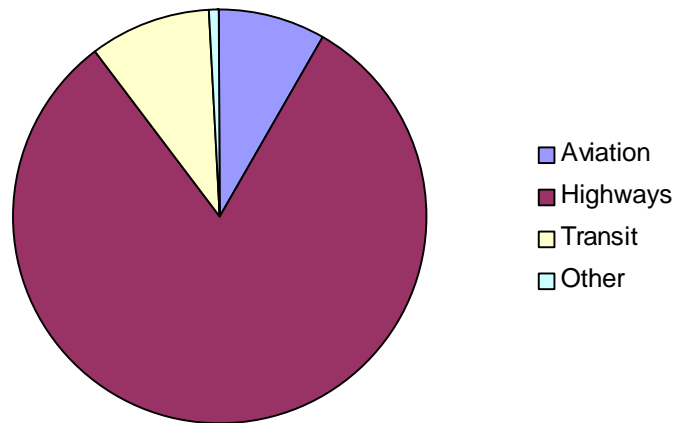
Department of Housing and Urban Development

Nationally, funding from HUD was nearly as much as from the Department of Transportation. Arizona's per capita figure from HUD in 2002, however, was 30 percent less than the national HUD average, though funding increased more than average from 1998 to 2002. Had the per capita figure been average, Arizona would have received an additional \$210 million. Most of the HUD funding came from public housing programs (see Chart 7): the Low Rent Housing Assistance through Capital Program entries shown in Table 2. Arizona's per capita receipts were far below average from each of these programs, including less than half the national average in the largest program — Housing

Certificate — which amounted to a shortfall of close to \$200 million. Arizona was much below average in most of the other HUD programs as well.

CHART 6

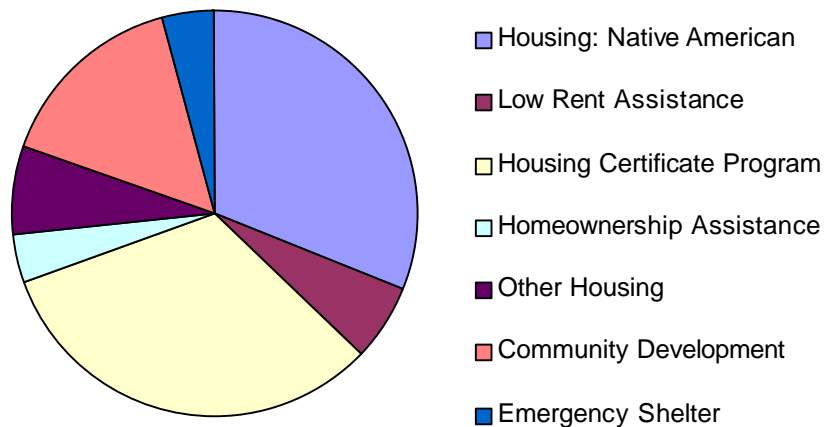
**TRANSPORTATION GRANTS TO ARIZONA,
FISCAL YEAR 2002**



Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002*.

CHART 7

**HOUSING & URBAN DEVELOPMENT GRANTS TO
ARIZONA, FISCAL YEAR 2002**



Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002*.

Department of Education

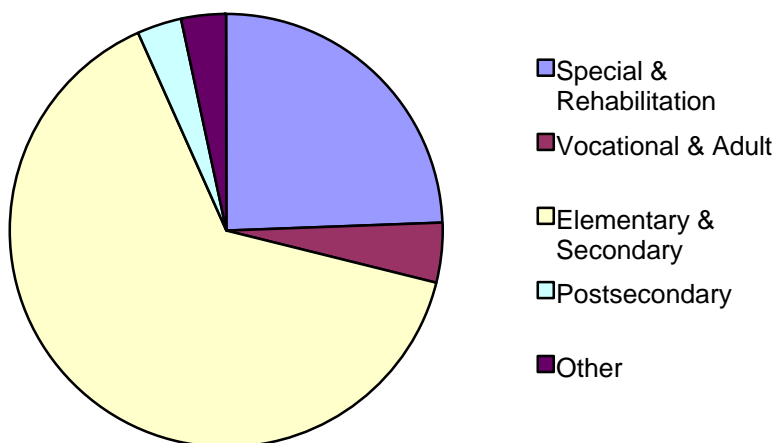
Nationally, grant expenditures by the Department of Education were less than those of the Departments of Transportation and HUD and accounted for 9 percent of all federal aid to state and local governments. In Arizona, however, education grants were responsible for 12 percent of the total and were second only to those of HHS. Though the 1998-to-2002 real per capita increase was just half that of the national average, Arizona's per capita figure still was above the national average in 2002.

More than half of the education grants were from the Office of Elementary and Secondary Education (see Chart 8), from which Arizona's per capita figure was well above average, despite a lesser gain from 1998 to 2002. Arizona's per capita grants were less than the national average in the largest of the office's categories (Title 1) and about equal in the second largest component, No Child Left Behind. However, per capita figures were far above the national averages in other categories, particularly impact aid and programs for American Indians.

Considerable funding also came from the Office of Special Education and Rehabilitative Services. With a decline in real per capita spending between 1998 and 2002 compared to a moderate increase nationally, Arizona's per capita amount fell to 16 percent below average. Per capita expenditures in Arizona by the Office of Special Education Programs dropped slightly from 1998 to 2002, compared to a large gain nationally, putting Arizona's funding 20 percent below average. Large decreases occurred nationally and in Arizona in funding of rehabilitation services and disability research programs.

CHART 8

EDUCATION GRANTS TO ARIZONA, FISCAL YEAR 2002



Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002*.

Arizona's per person funding was subpar from most of the department's other offices. The ratio to the national per capita average was especially low from the Office of Educational Research and Improvement and in adult education and literacy programs.

Department of Agriculture

Six percent of grant funding in 2002 came from the Department of Agriculture, nationally and in Arizona. Arizona's per capita figure was slightly less than the national average; inflation-adjusted per capita funding was essentially flat from 1998 to 2002 both nationally and in Arizona.

Close to 90 percent of the department's federal aid came from the Food and Nutrition Service. Child nutrition programs accounted for more than half of the Service's spending; Arizona's per capita amount was a little above the national average. Arizona also was above average in funding from the Special Supplemental Food Program (WIC), but per capita food stamps were less than half the national average.

Other Departments

Aid from the Department of Labor was next greatest, but was considerably less than that from the Department of Agriculture, accounting for only 2 percent of the overall total nationally in 2002. Almost all of the funding came from the Employment and Training Administration, from which Arizona's per capita amount was 12 percent below the national average. Arizona was considerably further below average in the State

Unemployment Insurance and Employment Service component than from Workforce Investment.

In Arizona, per capita funding from the Department of the Interior exceeded that from the Department of Labor; Arizona's Interior figure was four times the national average and advanced more between 1998 and 2002. The differential was greatest from the Bureau of Indian Affairs, which was the largest of the department's grant sources nationally and in Arizona, but per capita spending in Arizona also was far above average from the Bureaus of Land Management and Reclamation.

Per capita funding from the Department of Justice was above the national average in Arizona in 2002. The Environmental Protection Agency was the only other department with funding in excess of \$1 billion nationally; Arizona's per capita monies were 35 percent less than average, declining from 1998 to 2002 on a real per capita basis.

In 2002, Arizona would have received \$20 million or more than actually received from each of 15 programs had per capita funding equaled the national average. See Table 3 for this summary.

**TABLE 3
LARGEST SHORTFALLS IN FEDERAL AID
ARIZONA, FISCAL YEAR 2002**

Program	In Millions
Centers for Medicare and Medicaid Services	\$253.7
Public Housing Certificate Program	193.1
Highway Trust Fund	76.5
Public Housing Capital Programs	59.2
Temporary Assistance to Needy Families (TANF)	53.3
Foster Care and Adoption Assistance	49.3
Disaster Relief	47.2
Low Rent Public Housing Assistance	40.6
Food Stamp Program	38.5
Federal Transit Administration	38.2
Office of Special Education Programs	31.8
Health Resources and Services Administration	30.7
Community Development Block Grant	27.6
Low Income Home Energy Assistance	24.1
State Unemployment Insurance and Employment Service	20.2

Note: Shortfall determined by comparing Arizona's actual funding to that it would have received had its per capita funding equaled the national average.

Source: U.S. Department of Commerce, Bureau of the Census, *Federal Aid to States for Fiscal Year 2002*.

OTHER CATEGORIES

Retirement and Disability

Nearly a third of all federal funds are distributed as retirement and disability payments, nationally and in Arizona. This category includes direct payments to individuals, such as social security, federal retirement and disability benefits, and veterans' benefits. In 2002, Arizona's figure was \$11.5 billion.

The 1992-to-2002 real growth in the per capita amount of retirement and disability funds (7 percent) did not keep pace with the national average (17 percent). By 2002, Arizona's per capita amount (\$2,102) was marginally less than the national average after years of being higher. The state's ranking was 35th nationally and fifth among the comparison states, down from 1992's ranks of 12th in the nation and second among 11 comparison states.

Social Security accounted for nearly three-fourths of the retirement and disability payments received by Arizonans in 2002. Nearly half (\$5.6 billion) came from the retirement insurance portion of Social Security, while survivors' insurance contributed \$1.4 billion, disability insurance \$1.3 billion, and supplemental security income \$0.4 billion. Other than Social Security, federal retirement and disability benefits amounted to \$2 billion, and veterans' benefits added \$0.6 billion.

On a per capita basis, Social Security retirement payments were about equal to the national average, but Arizona received below average amounts from each of the other components of Social Security. In contrast, Arizona was above average in federal retirement and disability benefits — particularly for military retirees — and in veterans' benefits.

Arizona's per capita receipts ranked among the middle of the states in most components. The exceptions were a higher ranking on federal retirement and disability benefits for military retirees and a lower ranking for Social Security survivors' payments.

Other Direct Payments

This category includes direct payments to individuals other than retirement and disability (largely Medicare benefits) and direct payment to other entities. Arizona's 2002 other direct payments of \$6.2 billion accounted for 18 percent of the federal funds total; nationally the share was 22 percent. After adjusting for inflation, the 10-year per capita gain in Arizona was 19 percent, barely higher than the national average.

Relative to the national average, Arizona's per capita receipt of other direct payments was cyclical over the 1992-to-2002 period, lowest in the early 1990s and since 2001 at more than 20 percent below average. The state's 2002 figure (\$1,135) ranked 45th nationally and eighth among the comparison states and ranks were nearly as low in the early 1990s. In contrast, the per capita amount nearly equaled the national average in 2000 when Arizona ranked 25th nationally and second among the comparison states.

Five-eighths of Arizona's other direct payments in 2002 came from Medicare, with the hospital insurance portion contributing \$2.1 billion and supplementary medical insurance adding \$1.7 billion. On a per capita basis, Arizona's hospital insurance benefits were 23 percent below the national average, ranking the state 39th and fifth among the comparison states. Supplementary insurance benefits were 13 percent below the norm, ranking 29th nationally but third among the comparison states.

Arizona's per capita amount ranked around the middle of the states in excess earned income tax credits, food stamps, agricultural assistance (though the ratio to the national average was below 50 percent), and federal employees' life and health insurance. At just 46 percent of the national average, Arizona ranked 46th on unemployment compensation and similarly low on the much smaller housing assistance program. Arizona was above average on the amount received from miscellaneous other programs.

Procurement Contracts

Procurement contracts with private-sector businesses in Arizona totaled \$7.3 billion in 2002, or 21 percent of all federal funds. This share was much higher than the national average of less than 14 percent.

Inflation-adjusted procurements nationally peaked in the mid-1980s, then fell through 1997. The reduction in the late 1980s and 1990s hit Arizona especially hard, with per capita awards falling below the national average and the state's rank among the comparison states dipping as low as ninth, though Arizona never ranked lower than 24th among all states (in 1997). Since 1997, procurements have increased, with a particularly strong real per capita gain in Arizona (70 percent v. 7 percent nationally). Arizona's per capita figure surged well past the national average, reaching \$1,336 (52 percent above average) in 2002, the eighth highest in the nation and second most among the comparison states.

Nationally, 61 percent of the procurement contracts in 2002 were with the Department of Defense, but in Arizona defense contracts of \$6.5 billion accounted for 89 percent of the total. Arizona's per capita amount from the Department of Defense was 2.2 times the national average, ranking fifth nationally and first among the comparison states. Procurements from the Army were particularly high at \$2.7 billion, 3.8 times the national per capita average and third in the nation. However, Arizona also ranked among the top 11 states in the contract value with the Navy, Air Force, and other defense sources.

In contrast, Arizona received only \$831 million in procurements from nondefense agencies. The per capita figure was only 44 percent of the national average, with the state ranked 44th nationally and last among the comparison states. Of 23 subcategories of nondefense, Arizona's per capita awards were below average in 21. The exceptions were contracts with the Departments of Justice and the Interior. The greatest nondefense funds came from the Postal Service, but the state ranked 42nd per capita.

Salaries and Wages

Wages and salaries paid to federal government employees (including the military) is the smallest of the five categories, accounting for 9 percent (\$3.1 billion) of federal spending in Arizona and 10 percent nationally in 2002. Real per capita spending fell 11 percent nationally between 1992 and 2002; the decrease in Arizona was 16 percent.

Arizona's per capita amount (\$576 in 2002) was consistently below the national average between 1992 and 2002, by 10 to 15 percent (15 percent in 2002). In most years, Arizona ranked 28th or 29th nationally (but 31st in 2002) and seventh or eighth among the comparison states.

Federal employees other than defense workers living in Arizona earned \$2 billion of the state's total \$3.1 billion in federal wages and salaries in 2002. Among the nondefense agencies, the Postal Service had the highest payroll in Arizona at \$811 million, accounting for one-fourth of total federal wages and salaries. On a per capita basis, Arizona ranked 42nd nationally with a Postal Service figure 17 percent less than the national average. Justice Department employees in Arizona earned \$228 million; the per capita amount ranked sixth in the nation, 1.5 times the national average. Arizona also ranked above the per capita average on the three other civilian programs providing the greatest wages and salaries: Department of the Interior (three times the national average, ranked 13th nationally but only sixth among the comparison states), Department of Veterans Affairs (barely above average), and the Department of Health and Human Services (2.3 times the national average, eighth most in the nation).

Overall, per capita nondefense wages and salaries in Arizona were 13 percent less than the national average, with a rank of 27th nationally and seventh in the comparison group. The figures were similar for defense wages and salaries: 18 percent below average, ranked 30th among the states and ninth among the comparison states. The per capita figure for active military was close to the national average, but the figures for inactive military and civilian defense workers were quite low.

Total

Individuals, companies, local governments, and other entities in Arizona received \$34.8 billion from the federal government in 2002. Per person federal funds received in Arizona amounted to \$6,371 in 2002, compared to the national average of \$6,527 — a difference of 2.4 percent. Between 1992 and 2002, annual per capita figures in Arizona ranged from nearly equal to the national average in 1999 and 2000 to more than 8 percent less in 1994 and 1997.

Examining annual data between 1992 and 2002, no trend or cycle is apparent in the total amount of federal funds received in Arizona relative to the national average. As a result of the much faster growth of the state's population, the inflation-adjusted increase in federal funds between 1992 and 2002 was more than twice the national average (see

Table 4). Per person, however, the increase was only a little greater in Arizona: 23 percent v. 18 percent nationally.

Arizona ranked between 27th and 36th among the 50 states and District of Columbia on the per capita amount of federal funding between 1992 and 2002; the 2002 rank was 31st. Among 11 comparison states, Arizona's rank gradually improved from sixth in the early-to-mid-1990s to third in 2002.

TABLE 4**SUMMARY OF FEDERAL SPENDING NATIONALLY AND IN ARIZONA**

	Amount in 2002		2002 Per Capita Ratio to U.S.	1992-2002 Real Percent Change	
	Total (in millions)	Per Capita		Total	Per Capita
TOTAL					
Arizona	\$34,761	\$6,371	97.6%	71%	23%
U.S.	1,882,255	6,527		33	18
Retirement and Disability					
Arizona	11,471	2,102	99.8	50	7
U.S.	607,300	2,106		31	17
Other Direct Payments					
Arizona	6,193	1,135	78.0	66	19
U.S.	419,395	1,454		33	18
Grants					
Arizona	6,664	1,221	86.6	110	51
U.S.	406,579	1,410		73	54
Procurement Contracts					
Arizona	7,291	1,336	151.6	137	70
U.S.	254,252	882		20	7
Salaries and Wages					
Arizona	3,142	576	85.3	18	-16
U.S.	194,727	675		0	-11

Note: Data are for fiscal years.

Source: U.S. Department of Commerce, Bureau of the Census, *Consolidated Federal Funds Report* (various years). GDP implicit price deflator from U.S. Department of Commerce, Bureau of Economic Analysis.